

Congresswoman Maxine Waters' Statement  
WorldCom Hearing  
July 8, 2002

Mr. Chairman,

Thank you for calling this hearing and for your patience in allowing members to speak.

Americans are watching and waiting to see if the Members of Congress are going to get serious about investigating Corporate Crime and supporting tough legislation to prevent the corporate fraud deceit and schemes we have witnessed unveiled in recent weeks.

WorldCom, Inc., joins a growing list of corporations accused of wrongdoing and criminal activities--Enron, Arthur Anderson, Tyco International, Adelphia Communications, Rite-Aid, Global Crossing Imclone, Xerox, and more to come--corporations whose executives stand accused of abuse of stock options, sweetheart loans, conflict of interest, excessive compensation and severance pay, and now, the Securities and Exchange Commission has filed a fraud lawsuit in Federal Court against WorldCom, Inc. The suit alleges WorldCom, Inc., was "directed and approved by top managers to keep earnings in line with Wall Street expectations and to support WorldCom's stock prices."

In essence, WorldCom has revealed they inflated their books by \$3.9 billion. They treated on-going operating costs as capital investments. They reduced their operating expenses, that is, the cost they paid to other carriers for using their networks by spreading the cost into the future.

This improper accounting is no error, no mistake, it is calculated to enhance the company's net income and to hike its earnings before interest, depreciation, taxes and amortization. This made WorldCom appear healthier than it was, and thus more attractive to investors.

A syndicate of banks hold \$2.65 billion in unsecured loans and bondholders about \$30 billion of WorldCom bonds--all of which are in jeopardy. The banks could call in their loans, and the WorldCom bonds could be thrown into default. My own state of California Public Employee Retirement Pension funds could lose approximately 580 million dollars. WorldCom could easily file the largest bankruptcy in history. The impact of such a bankruptcy will be felt around the world. Aside from the 17,000 WorldCom employees, thousands of employees in related industries could be laid off. Thousands of pensioners will lose their pensions and the damage to our economy is incalculable.

This cowboy capitalism must stop! The President of the United States cannot simply treat this as damage control for his future election--a stump speech with the right sound bites--is not good enough. The President of the United States must support tough legislation and he must use the power of the White House to get the support of the usual chorus of defenders of the mega thieves of corporate corruption to vote to live up to their "tough on crime rhetoric" with mandatory minimum prison sentences. The shameful corporate culture of old boy relationships, where major banks led by Citigroup with J. P. Morgan, Bank

of America, Fleet Boston, Bank One and Wells Fargo, made billions of dollars of uncapitalized loans to WorldCom without any due diligence, but at the same time, cannot find in their corporate hearts a way to provide home mortgages to working families to own a home is disgusting.

The analyst, Mr. Jack Grubman from Salomon Smith Barney, with close ties to WorldCom and who recommended WorldCom as a good investment while WorldCom was on the brink of collapse, should be indicted. (He calls it synergy rather than conflict of interest). The founder, Mr. Ebbers, the Board of Directors and certainly the auditor of record, the now infamous Arthur Andersen, should have known and should be held responsible. Mr. Sullivan simply committed the simplest, most easily detectable accounting fraud. He lied about operating costs, hid debt and is still trying to justify operating costs as capital costs. Everyone should have known and I believe they did know.

I was alerted the principals we have subpoenaed today will take the Fifth Amendment, and that is their constitutional right to do so. However, I expect the Justice Department to determine if there was a conspiracy to commit fraud. I expect the Justice Department to go after WorldCom's auditor, the consistently insider conflict-of-interest wrongdoer, Arthur Andersen again. I expect Mr. Sullivan to return the \$10 million retention bonus given to him. I expect the SEC and the Justice Department to delve into the sale of his WorldCom stock to determine if he benefitted from the inflated stock prices he created by his fraudulent accounting practices even at the risk of jeopardizing the completion of his multi-million dollar mansion. I also expect the Justice Department to examine Mr. Ebbers' WorldCom loans and stock options to determine if he, too, benefitted from the cooking of the books.

I demand SEC to exercise its authority to get into the details of the WorldCom fraud.

\$ What other operating expenses have been reported as capital expense?

\$ How can we protect the pensioners and how will MCI and other customers be protected?

The immoral and unconscionable practices of corporate America have been festering for a long time. Corporate America in general and some corporations such as Enron and WorldCom have gained power and influence by their connection to politicians by way of campaign contributions and cozy relationships. These same companies have enjoyed tremendous tax breaks and less regulation than they deserve. Corporate America has run wild with huge compensation for top executives, outrageous stock options, severance pay and personal loans. The conflict of interest of auditors and analysts is obvious, yet there are those who will argue, don't go overboard with regulation. Don't create criminal charges.

Many of us will be charged with being anti-business as we insist on jail time and tough prosecutions. However, I encourage this Congress and my colleagues to think about workers who deserve living wages, better health benefits, and protected pension plans. Think about the workers who cannot get a loan from the same banks that provided unsecured loans of billions of dollars to companies like WorldCom without due diligence and think about the very customers who are now expected to save WorldCom. There are those who would advise customers to stay with MCI. WorldCom is depending on customer earnings to repay loans and give bigger compensation packages. Some even suggest because of WorldCom's relationship to the Pentagon, government should save WorldCom. I say, "no." It is time to reign in

corporate America gone wild. There are small-time crooks and criminals convicted to hard time in prison for theft and crimes of several hundred dollars. Surely we can see the contradiction in our criminal justice system. How can we develop confidence on Wall Street and get respect and justice from the ordinary everyday citizen of America if we do not seize this obvious opportunity to clean up this corporate crime? The time is now, the responsibility is ours, and every member of Congress who has received contributions and whose campaigns have benefitted from corporate wrongdoing should return the money--both Democratic and Republicans.